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SUBJECT: MOLDOVAN INVESTPRIVATBANK FALLS

REF: CHISINAU 0485

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Accordingly

¶1. (SBU) SUMMARY: The National Bank of Moldova, the country's central bank, withdrew the license of Investprivatbank (IPB) on Friday, June 19. The central bank issued a statement citing banking law violations and added that it had appointed an administrator to liquidate the bank. Moldovan authorities then arrested three top managers of IPB. Only several days prior to the announcement of revocation of IPB's license, the parliament had adopted a new law facilitating the insolvency mechanism. The GOM took quick action to organize a tender and then placed the bank under the GOM majority-owned Banca de Economii. END SUMMARY

#### MISMANAGEMENT LED TO BANKRUPTCY

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¶2. (SBU) The National Bank of Moldova (NBM) issued a statement on Friday, June 19 that it had withdrawn the license of Investprivatbank (IPB), one of Moldova's 16 banks. The central bank conducted a review of the bank from March to May 2009 before moving to liquidate it. The governor of the NBM, Leonid Talmaci, stated at a press conference that the central bank had restricted IPB's ability to grant new loans and had instructed the bank to restore its capital and liquidity earlier in the year. The NBM gave IPB three months to make progress before deciding to withdraw the bank's license. The NBM cited violations of banking laws, internal rules and NBM rules as the reasons for the revocation of the license. IPB was the 10th largest bank in Moldova (ranked by assets). Its net profit fell by 40 percent to approximately \$600,000 in 2008. Experts noted that other signs of the bank's difficulties were apparent over the past year. IPB had offered the highest interest rates on deposits in Moldova in order to attract depositors and had concentrated 40 to 70 percent of its loans in the now-frozen construction sector.

#### THREE INVESTPRIVATBANK MANAGERS ARRESTED

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¶3. (SBU) The Center for Combating Economic Crimes and Corruption (CCECC) issued arrest warrants for

initial 25-day detentions for the IPB director, Ion Chirpalov, and two other top managers, Alexander Voznisenschi and Lilian Ceban. The CCECC announced the arrests of the three managers in a press release on Tuesday, June 23. Chirpalov and Voznisenschi were being held in the CCECC's detention center, while Ceban was under house arrest. The three managers face fines of 40,000 to 60,000 Moldovan Lei (USD 3,700 to USD 5,500) and imprisonment of two to seven years. The press release stated that convictions would carry a ban on the right to work in management functions for five years.

#### NEW BANK LIQUIDATION LAW

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¶4. (SBU) Earlier this month, on June 12, the parliament adopted a new law facilitating the insolvency mechanism. The chairman of the Economic Policy, Budget and Finance Committee, Turie Muntean, noted that the previous liquidation procedure took too much time. (Note: Muntean is a member of the ruling Party of Communists of the Republic of Moldova. End note.) The new mechanism was designed both to reduce the time needed for the lengthy process and to protect depositors' interests. According to the IMF resident representative, if the legal changes had not been made, the liquidation of the IPB could have dragged on for months or years, effectively blocking depositors' access to their money. That development could have ignited a systemic bank run as depositors at other banks would have feared they would also lose access to their money for a long period of time. Under the new rules the NBM could appoint its own administrator and intervene to stop the bankrupted bank's dubious transactions much earlier than would have been possible in a lengthy court process, according to Muntean.

#### A TENDER ANNOUNCED

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¶5. (U) On Monday, June 22, Minister of Economy and Trade Igor Dodon announced that assets of IPB would likely be purchased by another Moldovan commercial bank in half a month. Dodon said that the GOM was interested in the assets and liabilities of the bank passing to another commercial bank in order to prevent a worsening of the situation. He indicated that the GOM would put IPB up for sale in an open tender. National Bank Governor Talmaci stated that depositors would be guaranteed the reimbursement of their deposits at the bank. At the same time he asked depositors to be patient and not panic, specifying that they would learn how to recover their deposits within a month. The ordinance on the liquidation of the failed bank appeared in the GOM's Official Gazette on Tuesday, June 23 with a deadline for bids of June 26. The National Bank issued a statement that IPB depositors could schedule a meeting with NBM deputy governor, Emma Tabarta, every workday from 9 am to 10 am. The NBM-appointed bank administrator, the so-called liquidator, Ion Ropot, also stood prepared to meet depositors daily between 4 pm and 5 pm. The NBM also announced a hotline for depositors.

#### A QUICK FIX

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¶6. (U) In a press release on June 23, the GOM announced that the Banca de Economii was taking over IPB. The GOM stated that all IPB assets and liabilities would pass to the Banca de Economii. All IPB depositors would automatically become

clients of Banca de Economii. Prime Minister Zinaida Greceanii called for the understanding of all IPB depositors and assured them that the state was striving to guarantee their deposits.

#### COMMENT

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16. (SBU) We were already aware that the recent IMF Mission to Moldova was very concerned that one of the sixteen banks in Moldova was near bankruptcy. The IMF worried that, should the GOM fail to handle carefully the liquidation of IPB, the government could easily incite a run on banks. Dozens of protestors waited in front of IPB on Monday morning, June 22, demanding the return of their deposits. New parliamentary elections are scheduled for July 29 and the ruling PCRM acted expeditiously to avert a banking disaster. The PCRM worked to introduce a new liquidation mechanism before announcing the withdrawal of IPB's license and then moved to protect all IPB depositors as quickly as possible. The PCRM continues to maintain that the economic situation in Moldova is not as serious as in neighboring countries. The PCRM campaign strategy that a vote for the PCRM is a vote for stability is becoming increasingly more difficult to claim as the Moldovan economy declines. A run on banks could have brought down the PCRM's campaign house of cards.

CHAUDHRY